Afghanistan RAMP Rebuilding Agricultural Markets in Afghanistan

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Specific Market Assessments for Almonds (Shelled and Unshelled), Dried Raisins and Dried Apricots, etc.

by

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Subject: Final Report
Afghanistan RAMP: Specific Market Assessments for *Almonds (shelled and unshelled), Dried Raisins and Dried Apricots etc.*

This report was written with business in mind. That is, to get the point across about industry and business development as integral to improving market linkages. Since I approached the task in this manner, my diction this report reflects the same and may be too direct. My apologies in advance for any awkward, undiplomatic passages. Also, this is only a draft report. Any editions or changes from RAMP and Chemonics officers to improve tactfulness, appearance, or the text to include any neglected points, are welcome. The annexes are illustrative and should be used only for this report. Additions to address specific points in the original SOW, such as *market information systems that will keep Afghan exporters abreast of current price information*, are ongoing and shall be included comprehensively at a later date.

For purposes of this report and my work in Afghanistan, my definition of an Afghan food processor ranges the spectrum from an industrial processor, those processing mostly red, black, or *aftabi*, raisin varieties, down to the crude but effective sorting/grading/packaging operations of the commercial agent who exports a wide range of products to regional markets such as *kishmish*, or sultana, almonds and cumin.

The recommendations are intended to be congruent with the goals and objectives of the Strategy on Market Centre Development for developing marketing potential for dried fruit and nuts.

- **Goals**: To expand and upgrade post harvest (cleaning, storage, handling, sorting, processing, and packaging) and market facilities in order to lower marketing costs, add value to marketable products, and, thereby access and expand new and existing markets.

- **Objectives**: To improve product quality, increase storage efficiency and temporal returns to storage, increase the volume of products marketed, increase marketing efficiency, lower marketing costs, and increase processing and packaging of high value agricultural products.

There are many factors that influence the approaches listed. Chief among them are time, capturing and adding value through processing and increasing the volume of products marketed. In effect these points underscore the recommendation to use existing Afghan food processing industry assets and resources to attack the Russian market with a wider range of products than raisin alone while concurrently improving industrial capacity and capabilities to enter new markets.

Interventions undertaken to date that include having NGOs attempt to tackle singularly the same problems are understandable but flawed as, among other things, this would require too much time to accomplish effectively. That is not to say that NGOs do not have a role to play. Indeed there are exceptional organisations that could complement and assist in the Strategy on Market Centre Development (SMCD). Increasing quantity and improving quality of raw materials for industrial processing will be critical to improving the marketing strength of Afghan processed foods in export markets. Improving market centre support mechanisms and structures such as cold storage and warehousing will be vital to the industry in creating efficiencies and reducing costs in the supply chain. Training Afghan farmers in post harvest handling practices, and Afghan processors in areas of operations management and food processing techniques, are equally important and can be handled well by NGOs.

However addressing needs on the level of an industry, while at the same time improving its market position, would require considerably more resources than can be had among a handful of non-profit organisations. The challenge will be to manage and co-ordinate elements from agriculture, industry, governments and markets in order to succeed.

My findings can be summed up as follows:

- USAID and RAMP/Chemonics seek to improve market linkages and add value to Afghan fruits and produce in a timely fashion; a task which can be accomplished through industrial food processing and marketing.

- NGOs are actively seeking funding under the latter points. Should the NGOs be funded they would be enabled to integrate vertically from agricultural production, through processing and ultimately to the export markets.

- There is a food processing industry in Afghanistan. It is small and weak but it exists. Approximately 1/3 of the Kabul area processors are prepared to re-invest in Afghanistan. They have purchased, or are actively seeking, new equipment.

- Low quality dried fruit as raw material for industrial processing due to poor production methods and post-harvest handling practices.

- Inadequate or non-existent standards in grading and packaging industry wide and non-uniform weights / measures.[1]

- The interim government has, through the Ministry of Commerce, re-established the Dried Fruit and Raisin Export Promotion Board. Part of its duties are to analyse export goods and issue certificates of quality based on this analysis. These certificates and the Board have proved beneficial to exporters in the past but their continuing effectiveness is in question.

[1] also in UC Davis Horticultural Market Survey, October, 2003.

- The industry regards funding of the NGO sector as worrisome, that such a situation equates to artificial competition which could squeeze existing enterprises into extinction.

and recommendations:

- Consider interventions that provide for institutional capacity development; technical assistance in the form of financial and business development support to food processors and the food processing industry.
    - ► TA to the industry could be facilitated through working closely with the Dried Fruit and Raisin Export Promotion Board.
    - ► TA to individual processors should be comprehensive - from business planning, in order to qualify for credit, to assisting existing processors and those ready to re-invest in areas ranging from qualification of raw materials to QC mechanisms downstream on the production line.

- Consider funding for NGOs with experienced personnel that could assist to improve agricultural production, improve market support structures such as storage and improve food processing through provision of training in post-harvest handling, technology, processing techniques and quality control systems.

Part of this consultancy was to develop a study to identify market values for Almonds, Dried Raisins and Dried Apricots into the Middle East, Europe and United States of America. Although the initial scope of work changed to reflect the needs of the RAMP office, subsequent exposure to RAMP's work with NGOs, the agribusiness sector and the nascent Afghan food processing industry led the work to cover different areas that should hopefully prove equally as beneficial to the programme, the donor, the consultancy and the immense challenges faced by Afghanistan.

Since the study was to be a collaborative effort covering areas dealing with agribusiness and market development the report reflects the two schools, at least topically. Assessments, or audits, of food processors from the market side to qualify them for imports normally touch upon the agricultural aspects without becoming too involved. It's usually a matter of collecting raw material samples for evaluation at the plant and at a separate laboratory to determine toxins and bacteria content, i.e. to verify pesticide and herbicide use against product labelling and the like. In the case of Afghanistan the situation was rather more complicated with agribusiness and agricultural matters at the fore. The original plan for marketing almonds, raisins and apricots became somewhat adjusted as well. In a sense the duality embodied in the marketing strategy proposed in this report is a reflection of the dual nature of the work in country. Marketing strategies should help to create a strong link between production and the market. They succeed if the players involved understand the risks involved and are able to perceive readily the benefits. Such is the case in Afghanistan. Afghan processors are ready to move a wider range of products into the Russian and European markets. Buyers in these markets are willing and interested to pursue the potential. These links are strengthened further by the activities of the trusted partner and intermediary, the consultancy, which acts to facilitate needs on both sides: the need for understandable information relating to product quality on the part of the buyer; the need to improve industrial and market support mechanisms on the production side.

In assessments of local food processors and businesses a boiler plate form suggested by Tom Fittori for dealing with sub sector analyses was used. The form is very good and outlines generally the costs of production, sales, markets and potential, or target markets i.e. the future plans of a particular processor. It is largely an agribusiness tool and is easily understood and useable by local staff. Qualifying businesses to exploit markets, their potential to improve product offering, value-added processing and the like would require a more detailed audit; for example, dealing with everything from raw material evaluation to processing method, equipment, plant construction, construction materials up to and including company organisation, operations management and management of the enterprise. Nevertheless this form is a solid first step for the agribusiness side in that it can be carried out rather quickly, depending on circumstances and referenced, which will be important for RAMP management in following the Market Centre Development Strategy.

There was a strong impetus from Chemonics to have Afghan food products enter European markets when this consultancy began. In late October samples were requested in order to gauge potential of the commodities. Mixed almonds, sultanas, raisins and two

grades of dried apricot were sent. The products had been taken from a bazaar in Kabul, unprofessional in presentation and packaging, they were clearly not going to be acceptable to buyers accustomed to more sophisticated approaches. Upon presentation of these products to two buyers in Belgium, the responses were 'to forget the dried fruit. It's too dry, too dirty, raisins are still stemmed and what kind of quality controls exist in production of these commodities?' 'Where are the certificates of quality attesting to analyses for micro-bio, toxins and metal detection?' It was noticeable that neither tasted the commodities. The samples indicated two principal problems, or perhaps a combination thereof. There were inadequate quality control mechanisms at the processor and customs/governmental level and, that the consultancy was unaware of the capabilities of food processing enterprises.

The samples were subsequently divided for other buyers and laboratory analysis. In the end the buyer would have to be convinced rather than accept Afghan product at face value and, since quality control functions were dubious on the production side, the analyses would have to be done on the market side. The results of these preliminary samples also indicated a need to develop immediately some export potential as a component of the work in Afghanistan. To this end it was important to train some of the commercial agents, who presently export to India and Pakistan, to grade and sort products, notably almonds, in anticipation of demand among European buyers. The first steps were to teach producers to prepare professional samples. This was done with one exporter whose samples have since arrived to Moscow and Belgium. The results were significantly improved responses from both markets. The Russian buyers are interested to explore further potential for pine nut and kishmish sultanas. One Belgian buyer has indicated interest in cumin and different almond varieties depending on analyses from Holland. Nevertheless, this not equate to sales just yet. However, it does show that the producer can adapt quickly and is responsive where the market is concerned. It also indicates that should proper equipment be installed to sieve and process cumin and to shell and grade almonds and pine nuts, along with decent packaging and product certification, exploitation of these markets could be effected within the year.

The NGOs seemed to be rather a mixed bag. Some made solid, logical arguments in their proposals, others offered rather fantastic solutions. In retrospect, most NGO proposals were panned. The reasons for this deal largely with the approaches and methods proposed, many of which equated to the NGO masking as a business in order to make cost free profits rather than to effect improvement of market linkages. On the other hand, regarding the dire condition of the food processing sector and realising that Afghan processed foods need to enter high-end markets very soon, there was a compelling argument to ignore noble intentions in favour of getting the job done. Indeed this seemed the goad spurring NGOs to the RAMP trough.

If the goal was to strengthen market linkages, to capture and add value to local produce, there were few that seemed capable of achieving it. Either industrial food processing seemed misunderstood by the NGO or market linkages were ignored or went undefined. If these were defined they seemed mostly far-fetched or too costly to compel positively the business case. For example, in the one instance where an NGO is actively marketing

processed raisins the business case is challenged on sales. To put this in some perspective, the price per tonne of the NGO's raisin is $700 - $750 at point-of-sale FOB Karachi; after costs this NGO reportedly nets around $50 per tonne in profit. Equivalent finished products that are marketed by Afghan processors reach destination at around $1,000 per tonne. Using the NGO's calculation, which indicates comparatively high production costs, the margins alone argue in favour of the Afghan business case. In another case an NGO sought to convince the consultancy of its suitability for funding based on letters-of-intent from potential buyers in Europe, which had been fantastically interpreted by the NGO to mean that their entire non-existent 2004 production had already been purchased.

When considering the samples sent by Chemonics to Russia and Belgium, the responses from the buyers are sober. There are two letter-of-intent so far. Subsequently buyer and seller shall need to negotiate matters dealing with price, costs, contracts, qualification of product, conditions of sale such as Letters-of-Credit and logistics among others. Chemonics supports this interaction effectively through supporting the market connection. The qualification of products, or certification of quality, is scheduled to be undertaken in Holland in January, 2004 concurrent with buyer demand for same. The reports generated at the laboratory also may be used in lieu of, or with, certificates of quality issued by the Afghan government among other producers; and Chemonics personnel are available to facilitate the rest of the business process. However, the entire 2004 production has not been purchased by the buyers.

Most of the NGOs who petitioned RAMP/Chemonics seemed unaware of the nature of the Afghan food processing industry, much less that it even existed, as it was never mentioned in any of the proposals. The Afghan food processing industry is a survivor. Darwinistic, it has evolved to reach its present market limit of placing industrially processed foods in the best high-end market position possible, Russia. In this sense Russia is a crude mirror image of Europe. Like the European market, Russia pays high prices for good quality products yet does not have the regulations, or does not strictly enforce these technical barriers to trade, as does the EC.

Some NGOs are genuinely interested to facilitate the process as outlined by USAID and Chemonics. Others seem genuinely interested to facilitate the bottom line. Either way there seem to be problems, or the potential thereof, inherent in this intervention that should be identified and avoided. If managed properly, the expertise and knowledge available in the NGO sector that could be harnessed and applied to assist the Afghan agribusiness sector and the food processing industry could prove very beneficial for Afghanistan to exploit its competitive advantage.

Afghanistan - General Situation for Food Processing & Export Markets

In Kabul, at a Thanksgiving celebration in November, 2003 James Bever of USAID remarked that 'it would be great to be able to find Afghan almonds for sale in my corner store back home.' In a nutshell, this would be fine indeed but there are some problems which shall have to be overcome on the way to that corner store.

Although the United States comprises one of several target markets, to include Europe, regional and traditional markets, that Afghan food processors will need to exploit, there are significant barriers to trade that hinder market entry. Typically these barriers are in the form of regulations covering import of raw, semi-processed and processed foodstuffs. Compounding the problem, there is a lack of adequate export market knowledge among Afghan processors, poor or inadequate quality control on raw material and processed foods, a lack of proper up-to-date processing equipment[2] and know-how such as quality control systems, absence of universal measures, standards and grades, inadequate operations management, a lack of organisational strength in the food processing industry, inadequate banking infrastructure and business support services to name but a few.

USAID and Chemonics International have given high priority to areas of infrastructure rehabilitation, rural agricultural rehabilitation, technology and market development. The first phase of this development, the construction of roads, irrigation and other physical infrastructure is well under way. The second part, agricultural rehabilitation, which will improve quantity and quality of agricultural goods, has also begun. The third phase will prove equally challenging as the first two. The target markets envisaged by RAMP/Chemonics may only be entered effectively subject to certain conditions. In general these conditions equate to improving manufacturing or, the establishment and operation of food processing facilities that would be considered acceptable to European and American markets.

Another factor which should be taken into consideration, especially in terms of facilitating entry into new markets, is that there is an existing food processing industry in Afghanistan. This industry has weathered some 3 decades of changing governments, different economies, civil strife and war. Through all of this it has adapted, evolved to re-attain some share in regional markets India and Pakistan, and in traditional high-end markets such as Russia. Nevertheless, its continued existence is threatened.

Sectorial problems affecting the industry are lack of investment and the means to facilitate same, poor access to resources such as land, water, power and capital. There is a dearth of legal, policy and institutional frameworks for enterprise development. Market share is shrinking in Russia. Competition in processing and marketing of similar commodities exists internally and from regional processing countries such as India, Pakistan, Turkey, Iran as well as new entrants such as Uzbekistan. Market distortions, for example in the form of agricultural subsidies in target markets, will make entry in these

[2] Top photo shows filthy contact surfaces on a discharge hopper. This equipment is part of a Kabul raisin processing line over 40 years old. Once an audit reveals these kinds of improprieties in a food processing operation, its reputation becomes soured among buyers. Overcoming technical barriers to trade would require replacement of old lines, a clean, dust-free processing environment plus training in proper maintenance procedures.

markets tough, especially on price. Production volumes of the targeted commodities are extremely low; again the reasons are well known, war etc., which indicates niche marketing as practically obligatory. For example Afghanistan exported some 2,000 tonnes of almonds in 2002[3]. Compare this to Spain, the second largest producer of almonds globally and the largest competitor in target market Europe; with average export figures of 43,000 it is also one of the main importers, importing an average 26,000 tonnes of almond. The majority of these imports are then re-channelled abroad after industrial processing[4].

In order to compete effectively in target markets Afghan processed almonds would need to target sales in niche markets. For example, targeting specific Business-to-Business (B2B) applications in the German confectionary market: slivered, sliced, diced and flour; or expressed almond oil, bottled, labelled and packaged for Indian clients. This would mean increased initial capital costs for the required machinery and packaging but would realise benefits in increased value added within Afghanistan.

Despite the difficulties, Afghanistan has great potential to increase its exports of dried fruit and nuts. In a meeting with a majority of the food processing industry representatives held at the end of December, 2003, it was revealed that some 30% of these processors either have new processing machinery awaiting shipment to Afghanistan or are actively seeking new equipment. In other words, Afghan food processors are prepared to re-invest. The significance of this point cannot be ignored. It has already resonated positively in Europe. To capitalise on the opportunity of making known that Afghan products will soon enter European markets significantly, the situation could be exploited quickly by the industry perhaps through advertisements in The Cracker or articles in journals such as Euro Food News.[5]

The delays to investment result principally from perceived risk, sectorial and infrastructure problems outlined above. Subsequent to the completion of the *Loya Jirga* in December, 2003 some of the land issues are said to be slated for review, perhaps resolution in the near term.

Clearly the Afghan government should shoulder its share of responsibility to resolve these questions in order for dynamic economic development to take hold in this sector. Carefully orchestrated interventions that combine the strengths of donor, consultancy, the Afghan government and the food processing industry in order to exploit efficiently the potential of Afghan export markets would facilitate the realisation of USAID and RAMP/Chemonics goals.

[3] An approximate figure from industry contacts at Timur Shahi go-downs and Mindawee Bazaar Kabul, November, 2003. n.b. this figure does not agree with the several hundred tonnes published in Chamber of Commerce reports for the same period.
[4] From Almendrave, *The Almond and Hazelnut Sector in Spain*, Annex III. Figures are for the same period.
[5] Both are industry favourites for the commodities in question.

Market Strategy

Goals:

1) the current high-end export markets, those without significant technical barriers to trade, are Russia and PK/India. **Expansion of product range on these markets should be a priority.**
2) Once the processing standards begin to improve then Afghan products should be able **to enter significantly the 2nd high-end market area, Europe**, which is the export market with significant technical barriers to trade.

Objectives:

- Evaluate Afghan food processors and exporters to determine:
  - Feasibility to serve Russian and European market with wider selection of dried fruit and nuts
- Undertake product evaluations for target market industries (B2B) with selected products
  - Use evaluations among Afghan producers to exploit new market opportunities

Target Market Russia:

Among other things, the Russian market is shrinking for Afghan products. This point was highlighted in Mr Hossini's letter of 31.12.03 (see annex II). Since his outfit is perhaps the largest importer of Afghan product on this important market, his perspective would seem rather significant. The majority of Afghan products on the Russian market are used in the confectionary industry.

The Russian confectionery market is the world's second largest after America, followed by Germany, Great Britain and Brazil. In terms of per capita consumption Russia lags behind West European countries. Annual per capita consumption in Russia is 9kg or, half that of the United States.

Production declined in most factories since 1991 due to the drop in consumer purchasing power and growing competition from imported sweets. In 1997 factories producing confectionery managed to cope with the crisis and increased production. In 1999 production of sweets in Russia grew by 14% to reach 1991 levels. Factories procured up-to-date technologies and began to pay more attention in marketing their products. Equally important, following the 1998 financial crisis and the devaluation of the rouble, most Russian consumers could not afford to buy imported sweets and turned instead to cheaper locally manufactured confectionary. Demand grew, encouraged production and soon domestically produced sweets appeared on the market competing effectively against imports. Lastly, consumer preferences continue to drive the market. When imported sweets appeared on the Russian market they attracted much attention, nevertheless consumers preferred locally produced confectionary over imported goods.

Since foreign suppliers lost part of the Russian confectionery market after the 1998 crisis they had to reconsider the problem and consequently switched to production. This situation fuelled investment by foreign producers in the confectionary industry resulting in new factories and shops producing sweets opening throughout the country.

An example of a successful operation in the Russian market is Nestle. Operating in Russia for several years, it accounts for 16% of all chocolates produced for the domestic market. The company holds controlling blocks of four Russian factories to include the Russian Confectionery Union, Altai and Kamskaya. British companies own controlling blocks of Konfi in Yekaterinburg, Volzhanka in Ulyanovsk and Zarya in Kazan. In 2003 Finland joined the party and bought controlling shares in 4 Moscow area factories, to include Krasnii Oktyabr, the flagship of Russian confectionary factories; Afghan products forwarded to buyers in Moscow by RAMP/Chemonics in December, 2003 are presently under consideration as raw materials for these facilities.

Growth in the Russian confectionary industry is steady and predicted to continue for many years. Strength in this sector is due to changing demographics in Russia. The middle class is growing which equates to something of an opportunity and a threat at the same time.

Opportunities are seen in

- the increase of disposable income
- the increase of local and foreign investment in production
- (resulting in) an increase in demand for high quality raw materials

Threats are seen in

- increased consumer interest in ingredients of processed foods
- inability of producers of raw materials for this industry to produce to ISO standards - the technical barriers to trade are becoming more apparent
- lack of range of products on market

Issues
Scheduling, Supply Chain & Core Competencies

Integral to the approach is the consideration of timing. On the one hand the donor and the consultancy require the intervention to succeed quickly, perhaps within the year, to supply new markets. On the other hand, the low production volumes and inefficient, traditional supply and production methods of raw materials for processing argue against quick solutions.

Food processors currently have difficulty sourcing decent raw materials in a timely, cost-effective fashion. This is not due solely to the raw material source, but deals with operations (procurement), management, production and marketing issues as well.

For example, consider the lack of a range of products, raisin only, on the target market Russia, and the significance to the food processor. Afghan food processors generally do not own the production facilities, rather lease them and schedule production when orders arrive. During December the raisin processing plants around Kabul were in full swing in order to meet demand in their largest export market, Russia, which was soon to celebrate the feasts of St. Nikolas and orthodox Christmas. Per factory in Afghanistan there is usually one 6-8 hour shift daily, 5.5 days per week. Compare this to other raisin processing countries, for example Turkey and the US, where facilities can operate for three 8 hour shifts daily, 6 days per week.

Since production schedules in Afghanistan occur normally in response to large orders from the market, raw material inventories tend to agglomerate at points along the production supply chain. It is common to find processing facilities in Afghanistan stock up to 6 month's worth of raw material.

Inefficiencies in the supply chain need to be addressed as a normal function of a food processor's business operation. Observations of current interventions to improve the situation reveal both the slow nature of the process and the difficulties inherent in attempting to create efficiencies in the existing supply chain.

The location of processing facilities also influences efficiency. In Afghanistan most production facilities are not co-located with agriculture rather, are located in or around metropolitan areas. Exporters serving the Indian and Pakistani markets receive, process and ship products from one of the densest market areas in downtown Kabul, the Timur Shahi Bazaar. In the photo at left approximately 70 workers receive, clean, grade, sort, package and ship almonds and sultanas bound for India all in an area of less than 100m^2.

In Kandahar one raisin processor has spent years trying different methods of raw material procurement in order to guarantee good raw material at reasonable prices; from contracting at the farm to sourcing alternatively from farm, bazaar and commercial agents on the bazaar. In Kabul another raisin processor watched the costs of raw material rise

this year from his own vineyards due to wage increases for his workforce[6]. In both cases high operational and production costs remain, along with inefficiencies in the supply chain.

Using the hit-or-miss approach should eventually yield positive results. However, it is time-consuming and wasteful of resources, which perhaps could be better applied in an approach that would combine cost and supply efficiencies where production and quality have been improved as a result of ongoing interventions in agriculture. For example, raw material improvements in sultanas and apricots have made steady progress at the hands of agricultural extension professionals working for Central Asian Development Group (CADG) in Kandahar. Although this work will likely require several more seasons in order to achieve export quality,[7] it has yielded very good returns by way of increased core competencies within the organisation. Sharing this knowledge among other producers in a timely fashion would do much to improve overall capabilities for Afghan food processors over the next few years.

The issue of timing remains nevertheless. In order to put more products into export markets quickly, there is a need to widen the focus from a few commodities to include other high value items while the core group of almond, raisin and apricot are improved. Marketing a wider product range is a common business practice among Afghan exporters, an adaptation that incorporates flexibility in the business in order to respond to market demand. Diversification into other product lines has also been the response from CADG, which is developing mung bean processing, peanut oil processing for domestic markets and has made forays into export markets with pomegranate. Cumin and pine nuts[8] are staples in regional export markets and enjoy strong demand in Europe. Iran exports processed cumin to Europe and buyers in Belgium are interested to see if Afghanistan can supply it as well. Afghan pine nuts are presently being considered for different niche markets in Russia: wholesale and bazaars for in-shell products, retail outlets for shelled[9] if possible.

Strength in the industry = range of products into target markets = strength in the market

The bottom line: increasing product range in target markets would provide opportunities to a wider range of processors that could ship product to these new markets. This would in turn increase numbers/sales during the 2nd ½ of the year if efforts to improve market position are matched by progress on the production side. The strategy envisages rapid progress in target markets as closely tied to improvements in the Afghan food processing industry. For example, assuming the land business and Afghan government issues could be sorted out enough to proceed then several of the re-investing processors could be assessed to determine their processing equipment procurement & factory construction schedules. Concurrently, their capabilities in respective markets and willingness to share market contacts (association building steps etc.) could be ascertained. Future market

[6] Nassary Ltd. Mr Nassary cited the higher wages paid to Afghans working for foreign enterprises in and around Bagram, plus the proximity to his plantations in Shomali, as the main causes.
[7] Mr Jamal, Drs Ayubi and Abdul Karim of Central Asian Development Group
[8] see also *Short Term opportunities for Export*, UC Davis Horticultural Market Survey, p5. October, 2003.
[9] At present there are no processing/decortication facilities in Afghanistan for pine nuts.

surveys could also incorporate this aspect, for example in Russia, where the Faisal Group enjoys markets that extend into new accession states.

An intervention that applies technical assistance (TA) in the Afghan industry seems the logical approach and the timing seems ripe. Strategically, linking the consultancy to the industry would seem to be advantageous to both sides. This would appear to be quite opportune for Chemonics in terms of being well-positioned to assist the rapid improvement of this sector. There seem to be no other organisations in country that are aware of the industry much less perceive the problem or how to resolve it. Considering the tools available to Chemonics, in terms of knowledge and resources plus the equivalent from the Afghan food processors, connecting the two in order to achieve proper development of the industry could yield very positive results/numbers within the year; i.e. increased sales on a wider range of products in more markets than for raisin alone.

Tactically, Chemonics could provide TA to Afghan food processors in their efforts to re-acquire and expand market share in Russia; concurrently the same TA will be helping them enter the European markets. I believe this could be done in two ways:

1. to work closely with the food processors who are ready to re-invest in the Afghan industry. These processors are using their own funds for re-investment so the TA from RAMP could be seen as a rather cost-effective intervention as it would likely deal more with the downstream end of the process line and marketing, that is;
    a. the quality control mechanisms - from supervision of facility construction (i.e. dust-free) to microbiology lab, metal detection & packaging etc.
    b. qualification of production - issuance of 'quality-of-product certificates by Export Board which would be vital for any market action.
    c. Involve market players in observing (through reports etc.) food processing improvements in country[10].

2. Financial - evaluate different players in the industry, to include those who presently export almonds, pine nuts and cumin to India and determine their suitability based on acceptability of their export products in target markets e.g., letters-of-intent and signed contracts based on same among buyers in Russia and Europe.

Congruence:

The TA approach should work well with(in) the Strategy on Market Centre Development along with the incubator/academic side if well co-ordinated. In any event it will be important to understand the common denominator here; i.e. the distortions manifest in any intervention that would institutionalise competition against the industry at this nascent phase could contravene any well-intended programmes. The competition already

[10] Although uncommon, it is an effective marketing practice as it allows for the buyers to perceive improvements as they occur; hopefully in accordance with accepted industry standards.

exists and would continue to occur in future as a natural market function. However, the industry is in a very delicate position. Positions that favour imbuing strength in this industry are congruent with the goals and objectives of the SMCD. They would also prove complementary especially considering the time factor and the fact that a considerable portion of the industry is ready to re-invest in Afghanistan.

Measurability:

The results should be phased, perhaps by quarter, in order to be suitable for measurability. For example, the preliminary results of the 1st quarter could be something like 'increased product range to target markets such as Russia,' which equates to putting more almonds, pine nuts and pistachio in that market, in addition to the processed raisin. This would also prove beneficial in supporting the intervention through:

1) Demonstrating Afghan products could compete in other markets, even with the current selection available

2) Providing a morale booster to get the FP industry to consider their approaches to other markets more carefully.

Meanwhile RAMP/Chemonics could demonstrate increases in product range. For example, increased range could be defined as 'important for imbuing strength for Afghan products in export markets.' This definition could also extend to include co-operation among industry players and logistical improvements in serving the market. These results could be linked to initiatives already underway to connect industry players with 4 confectionary factories in the Moscow region that are under new European management. The industry already enjoys good contacts in this market, such as Mr Hossini and the Faisal Ltd. Group, (see Mirwais Rahmani's report, Exported Dried Fruit 2003 from Chamber of Commerce) so increasing product spread - hopefully at higher prices than in India - along with a wider variety of market contacts seems the fair and obvious route. (n.b. It is not yet clear if processors could compete effectively yet on price considering low production volumes and low quality in production standards.)

The 2nd – 3rd quarters could employ the same increased product range concept but, with entry into Euro markets. This would link closely the steps to be taken at the Dutch lab whereby acceptable products could be telegraphed into the B2B sector. Again, measurability could track this development through export volumes and sales, and the pressure would be on the producers to seek out more market outlets and niche markets to demonstrate demand, which in turn would bolster the TA approaches on the finance/business development side in the industrial sector.

The 3rd – 4th quarter phase would likely focus on the value-added to products within Afghanistan based on USAID Chemonics timely interventions in TA for the industry. For example, decorticating lines for pine nuts would increase value for this commodity. Improvements in packaging and product certification would ensure value capture.

Financial:

This consultancy only touched upon the potential to determine financial feasibility for the suggested approaches. Presuming that some aspects may interesting enough to be followed through and carried out, more questions arise that perhaps would best address banking issues in future. As of 3 January 04, the only viable financial institution in Afghanistan was the Da Afghanistan Bank, which is not considered to be adequate to the task.

Competition is reportedly on the way. Nevertheless, what are the capabilities of such institutions regarding business support services for example, Letters-of-Credit, Loans, evaluation and management of contracts forward to support exports, market support services, specifically connections to consultancy services in target markets to support long-term industry/market development etc? How would a new bank perceive reduced risk in such an environment, especially when considering a new enterprise? What would be effective percentage for collateral or the like?

A crude approach, considering post-conflict, high-risk environment, would deal with tying loans for capital equipment and operational costs to the potential of the applying enterprise on the market. If a processor's products are acceptable on the market then buyers would be ready to enter contracts for 5-10 years, a period common to buyers in the Euro market. The bank would then have to evaluate the production and sales potential against the total project costs (capital + operational costs). Equally, the production ready for shipment could be evaluated and loans issued to cover operational costs or, loans on contracts forward with production as collateral. Another risk reduction could be had from the industry itself, which could provide recommendations and (possibly) collateral to support a particular processor. Chemonics could perhaps have the bank manage any sort of matching funds from the donor up to an acceptable or feasible percentage along with management of returns. Presumably Chemonics would work with the bank on funds management rather closely so that it would play important role in issuance of loans and management of returns equating to the initial donor contribution. That kind of relationship would be virtuous in that all participants would perceive readily incentives to co-operate to achieve common goals. It would also allow for monitoring and being in a good position to make adjustments, stimulate or initiate proper behaviour. For example, the returns could be used as a carrot, if needs be, with the industry to be forthcoming with collateral and support of up-and-coming processors, not to mention support of broader development initiatives that Chemonics may undertake such as procuring raw materials where quality and quantity have been improved or re-investment and partnerships in raw material improvements or development.